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CALAND ORE COMPANY LIMITED
Atikokan, Ontario

Chairman and Members

Select Committee of the Legislature on Mining

Gentlemen:

My name is Peter Ribotto. I am appearing before you as a representative of Caland Ore Company Limited which is located near Atikokan, Ontario. We appreciate the opportunity to present our views for consideration during your enquiry into methods of stimulating the further development of Ontario's mining industry.

Caland Ore Company Limited was formed in 1949 to explore an iron ore body which was known to exist in Falls Bay of Steep Rock Lake, Ontario. In 1953 a 7-year dredging program to prepare the mine for production was commenced. This development program entailed the construction of two dredges, which at the time were the largest in the world. The mine currently is producing iron ore at an annual rate of 2,000,000 tons; and the company has under construction a pelletizing facility to beneficiate a portion of this production.

Because of the unique circumstances which surround the development of Caland, we will confine our remarks to areas of the Mining Tax Act which we believe creates undue hardship in certain situations. We specifically have reference to the fact that the Ontario Mining Tax Act does not allow any deduction for pre-production expenses incurred prior to the commencement of output or for royalties paid.

The mining tax is basically a tax on the extraction of minerals, and as such purports to tax the value of the mineral removed from the ground. The province's right to place a levy on minerals removed from its domain is well established and we have no objection to this basic principle. However, since minerals have little value while still in the ground, the Act, by its own language, is designed to value the minerals at the "pit's mouth". This is accomplished by establishing the sales value and deducting therefrom the cost of removal.

There are situations where, because of geological conditions, a substantial amount of development work must be carried out before the mining can begin. A classic example of this is our own company's pre-production period. Dredging and other development involving the expenditure of many millions of

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dollars had to be carried out before production could commence. Due to the peculiar geological conditions that existed, there was no choice but to carry out this substantial development program before the mine could be brought into production. This development program involved the removal of 162,000,000 cubic yards of silt and other materials by a continuous dredging operation for 5 years and the sinking of a mine shaft with development drifts to the ore body. During the five years that the program was under way, approximately 30 million dollars of pre-production expenses were expended. Of this amount only slightly over 7 million has been available as a deduction under the Mining Tax Act. This has placed our company at a substantial disadvantage as compared to other producers who, because of different physical conditions, could bring their mines into production on a limited scale and conduct development and production activities at the same time, thus availing themselves of deductions for pre-production expenses.

It should be noted that the Mining Tax Act allows a deduction for depreciation with respect to equipment considered to be capital in nature. This seems to be a recognition of the fact that the amortization of expenditures for capital equipment made in one year are proper charges in determining the costs of removing the ore from the ground in a succeeding year. It seems difficult to justify the difference in treatment of an expenditure for a piece of mining equipment which is subject to depreciation (which equipment will be used in the mining process) and an expenditure made for the purpose of preparing the area for mining. Certainly, pre-production expenses must be considered a cost of removing the ore since without them mining could never commence at all. We also believe that the allowance of the amortization of pre-production expenses would increase the cash-flow available to the mining company and thus make it possible for more rapid expansion and stimulation of the industry as a whole.

We respectfully suggest that the Mining Tax Act be amended so that pre-production expenses incurred prior to the commencement of output may be amortized over the estimated tonnage which has been made available by the expenditure of these sums of money.

Another area of the Mining Tax Act which results in inequitable treatment and can place some companies at a serious economic disadvantage is the disallowance of any deduction for royalties paid.

The Mine Assessor has stated: "The Mining Tax Act of Ontario is not an income tax, it is more in the nature of a royalty, and the amount of royalty is

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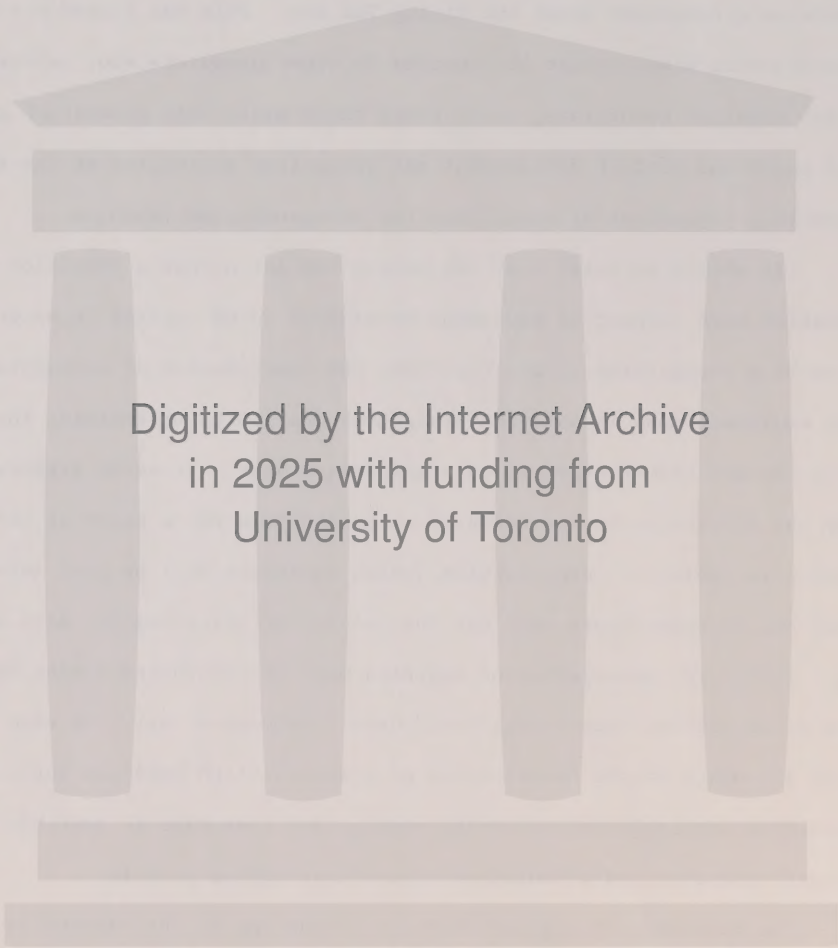
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calculated on an artificial profit figure". If the mining tax is truly a form of royalty computed as a tax on profits as indicated, then it would seem logical that all expenses of a mining company would be allowed as a deduction.

The Mining Tax Act specifically excludes the allowance of royalties paid by a mining company unless such royalties are paid to the province. This would seem to be discrimination against some leasing companies. The disallowance of royalty as a deduction can create the paradoxical situation where a company could make no profit and yet have to pay a mining tax. Such a situation would certainly cause a leasing mining company to shut down, and yet this company could have continued operation to the province's economic benefit. While we have no knowledge of the amounts involved in royalty payments to the province, it is known that royalties paid fee holders can approach 20 per cent of the mine market value of some ores.

If the Mining Tax is in effect a royalty on materials removed, then all costs of removing the material should be allowable. Certainly any royalty paid, either to a fee holder or to the province, is an integral part of the cost of mining and is recognized as such in Federal and Ontario Income Tax computations.

We respectfully suggest in this additional area that the Mining Tax Act be revised to permit the allowance of all royalties paid as a deduction. This would certainly stimulate the mining industry through the elimination of some undue hardships.

We will be happy to provide additional information if you desire.

Yours very truly,

CALAND ORE CO. LTD.

Peter Ribotto,
Vice-President & General Manager

Submitted by mail
September 10th, 1964
Presented to the Committee at a public hearing
held in Atikokan on Friday, June 25, 1965.